| **Activity Code 14980** | **Other Internal Control Audit, Indirect and ODC** |
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| **Version 4.0, dated September 2004** | |
| **B-1** | **Planning Considerations** |
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| **Purpose and Scope** | |
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| The major objectives of this audit are to: | |
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| • Evaluate the adequacy of and the contractor's compliance with the indirect/Other Direct Cost (ODC) system internal controls. | |
| • Obtain a sufficient understanding of the contractor's indirect/ODC system and related internal controls (including both manual and computerized activities) to plan related audit effort. This requires that the auditor assess the adequacy of the contractor's policies and procedures, whether they have been implemented, and if they are working and being monitored effectively. | |
| • Document the understanding of the indirect/ODC system internal controls in working papers and permanent files (see CAM 5-100). | |
| • Assess control risk as a basis to identify factors relevant to the design of substantive tests. | |
| • Report on the understanding of the indirect/ODC system internal controls and assessment of control risk, and the adequacy of the system for Government contracts. | |
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| This audit is limited to the examination of the indirect/ODC system and related internal controls for major contractors, non-major contractors where the system is considered significant and other contractors with substantial firm-fixed price contracts. Only those controls directly related to the contractor's indirect/ODC system, as defined below, will be audited under this assignment. Controls for interrelated audit concerns regarding the adequacy of the contractor's other major systems (i.e., labor, MMAS, etc.) will be audited under separate assignments. While the controls for these areas are not part of this audit, the results of all audits of these interrelated controls must be considered in forming an overall audit conclusion on the indirect/ODC system internal controls. The results of this audit should be commented on in reports on related audit areas. | |
| When performing an update or follow-up examination, the steps below should be adjusted and tailored accordingly. To the extent possible, prior audit effort should be used as a basis for validating the contractor's internal controls. | |
| Before beginning this examination, the auditor should be alert for internal control evaluations performed by the contractor or its external auditors relating to this audit area. | |

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| In those cases where internal control evaluations have been performed, the auditor should follow guidance contained in CAM 4-1000, Relying Upon the Work of Others. |
| Before performing any examination of internal controls, the auditor should determine that the system contemplated for examination is material to the Government. Once it is determined that the system is material to the Government, the auditor should reassess the materiality of each section in the internal control audit before performing any audit steps in that section. The scope of any audit depends on individual circumstances. The auditor is expected to exercise professional judgment, considering vulnerability and materiality, in deciding the scope of audit to be performed. |
| The use of computers of all kinds in a contractor's accounting and management systems is so pervasive it is unlikely that any audit of them could be performed adequately without an examination of the internal controls over their automated aspects. Therefore, the auditor should become familiar with guidance contained in the Information Systems (IS) Auditing Knowledge Base that is found on DCAA's Intranet, prior to the beginning of this audit. In addition in some instances, the assistance of IT specialists may be required to adequately evaluate the automated aspects of the internal controls. In these cases, auditors should coordinate, through their supervisory auditor, to contact their regional office to obtain the necessary expertise. |
| The internal control matrix (see Internal Control Matrix – Other Internal Control Audit, Indirect and ODC) showing the interrelationships among the control objectives, control activities, and audit procedures used in this audit program, is located in APPS under "Other Audit Guidance." The control objectives and the audit procedures have been fully integrated into this audit; therefore, the matrix is not needed unless it is desirable to see the associated control activities and the interrelationships in a matrix format. |
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| **<u>References</u>** |
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| • CAM 3-300, Internal Control Audit Planning Summary (ICAPS) |
| • CAM 5-100, Obtaining an Understanding of a Contractor's Internal Controls and Assessing Control Risk |
| • CAM 5-1000, Audit of Indirect and Other Direct Cost System Internal Controls |
| • CAM 10-400, Audit Reports on Operations and Internal Control (System Audits) |

| **B-1** | **Preliminary Steps** | **WP Reference** |
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| **Version 4.0, dated September 2004** | | |
| 1. | **Research and Planning** | |
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| a. Become familiar with applicable sections of CAM 5-1000 and any recent relevant Headquarters guidance not incorporated in the CAM located on DCAA's intranet under DCAA Audit/Administrative Guidance. | |
| b. Perform the following steps using the permanent file : | |
| (1) Review the prior indirect/ODC system audit working paper package. | |
| (2) Identify any indirect/ODC system deficiency reports issued (review ICRS database, as applicable). Document the results of (1) and (2) on W/P B-2. | |
| (3) Determine if there are any reported deficiencies in the other internal control system audits that impact the scope of this indirect/ODC system audit (review ICRS database, as applicable). Document on W/P B-2. The results of the Control Environment and Overall Accounting Controls examination, if any, should also be evaluated and documented, in detail, under Control Environment, Section C-1, Step 1, of the W/Ps, and under Information and Communications, Section E-1, Step 1. The results of the IT Systems General Internal Controls examination, if any, should also be evaluated and documented in detail under Information and Communications, Sections E-1, Step 1. | |
| (4) Identify the sources for the detailed policies, procedures, charts, etc., called for in steps (a) through (d) below. Document the sources of data by listing the data, its sources, and any changes since the last system audit. | |
| (a) Contractor's written indirect/ODC policies and procedures. | |
| (b) Organization charts depicting the functional areas responsible for developing and processing indirect/ODC related data. | |
| (c) Indirect/ODC system flowcharts providing a pictorial overview of all manual and computerized processing steps. | |
| (d) Information systems documentation: | |
| (i) Pertinent record layouts of files created and/or used during the processing of indirect/ODC related transactions. | |
| (ii) Database table definitions. | |
| (iii)Source documents. | |

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| (iv) Information on the conversion of documents to computer media. | |
| (v) Subsidiary or master files affected by the system. | |
| (vi) Relevant reports, journals, and ledgers produced in the flow of information to the indirect/ODC reports. | |
| (5) Review of audit lead sheets. | |
| (6) Review other related audits (e.g., 10100-Incurred Cost and 21000-Price Proposals. | |
| c. In planning and performing the examination, consider the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are: | |
| • Handbook on Fraud Indicators for Contract Auditors, Section II.3 (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and | |
| • CAM Figure 4-7-3. | |
| Document in W/P B any identified fraud risk indicators and your response/actions to the identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in W/P B. | |
| d. Obtain from the contractor a schedule of total dollars processed through the indirect/ODC system for the past twelve months (or most recent completed fiscal year) and summarize by total dollars and dollars by Government flexibly priced contracts and fixed price contracts in order to determine the materiality of the indirect/ODC system. Update ICAPS as applicable. | |
| e. Discuss the planned evaluation of the indirect/ODC system internal controls with the administrative contracting officer (ACO) and the contractor's major procurement activities to identify, understand, and document any concerns they may have or areas which should be evaluated. | |
| f. FAOs that have cognizance of contractors with significant classified contracts should coordinate with the Field Detachment to determine the DCAA office responsible for identifying and reviewing indirect/ODC on classified contracts. This coordination should be documented in the working papers. FAOs should also coordinate with the Field Detachment on any significant indirect/ODC system issues found on classified contracts during prior period reviews. | |
| g. Close coordination is required at FAOs cognizant of a shared services location and the FAOs cognizant of the segments serviced | |

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| by the shared services. Document the objectives and procedures to be performed at the shared services location and the segment level. Request assist audits, as applicable. | |
| h. Determine the extent and results of the contractor's self-governance activities, internal and external audits, and coordinated audits related to the indirect/ODC system. | |
| (1) Request the contractor to provide a list of completed internal and external audits and determine if any are related to the indirect/ODC system. | |
| (2) If applicable, coordinate with the CAC or corporate office auditors to determine if any internal control weaknesses that might impact the indirect/ODC system were identified in management's internal control report or independent auditor's attestation on management's assertion included in the annual report filed with the SEC. | |
| (3) In those cases where internal or external audits have been performed, the auditor should follow the guidance contained in CAM4-1000, Relying Upon the Work of Others. Document your preliminary evaluation and its impact on the scope of this examination. The evaluation of internal audit working papers is documented in detail under Contractor Compliance Reviews in Section G-1, Step 3. | |
| i. Determine the need for technical specialist assistance, if any, and document your consideration on W/P B-3. | |
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| 2. **Entrance Conference and Preparation** | |
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| a. Prepare a written memorandum to the contractor to arrange for an entrance conference covering the areas highlighted in CAM 4-302 and any specific data or pertinent information not yet provided. | |
| b. Conduct an entrance conference as outlined in CAM 4-302, with particular emphasis on: | |
| (1) Requesting the contractor to provide, if, a system orientation briefing or a demonstration of the indirect/ODC system transaction flow including data input, data processing, data output, and related internal controls. Document under Information and Communications, Section E-1, Step 34. | |
| (2) Determining any changes in the indirect/ODC process since the last examination. | |
| (3) Discussing the contractor's risk assessment process. The | |

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| overall understanding of the contractor's processes will be documented under Contractor Risk Assessment, Section D-1. | |
| (4) Discussing the contractor's monitoring process to ensure that established manual and computerized controls are functioning as intended. Document under Monitoring, Section F-1. | |
| (5) Discussing any identified weaknesses which may have been previously reported and related follow-up actions taken. | |
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| 3. **Other Preliminary Steps** | |
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| a. Determine the degree a computerized system is used in the indirect cost process. | |
| b. Determine the degree a computerized system is used in the ODC process. | |
| c. Document in W/P B your plan to address both the indirect and ODC aspects of the contractor's system or your conclusion that the ODC portion of the system is not material…. | |
| (1) If the contractor utilizes the same process for both indirect costs and ODCs, and the ODCs are considered material, the auditor should include test transactions related to both indirect costs and ODCs in determining whether the internal controls are operating effectively. | |
| (2) If the contractor uses different processes for indirect costs and ODCs, and the ODCs are considered material, the auditor should evaluate the internal controls for indirect costs and ODCs separately, and determine whether the controls related to each are in place and operating effectively. | |
| d. Perform a high level cursory evaluation to determine if the following exist: | |
| (1) A functional indirect/ODC organization with defined organizational responsibilities. | |
| (2) A written description of the work flow in the indirect/ODC process. | |
| (3) Policies and procedures for effectively controlling the process. | |
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| 4. **Initial Risk Assessment** | |
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| Using the information obtained in steps 1, 2, and 3, prepare an initial risk assessment to determine the initial scope of the examination (W/P B). | |

| **C-1** | **Control Environment** | **WP Reference** |
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| **Version 4.0, dated September 2004** | | |
| The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. The auditor should obtain a sufficient understanding of the control environment to determine the impact that it may have on the overall effectiveness of the indirect/ODC system internal controls. | | |
| 1. Evaluate the most recently completed ICAPS for the Control Environment and Overall Accounting Controls for the rationale behind any moderate or high-risk assessment ratings and determine the impact, if any, on the effectiveness of the indirect/ODC system internal controls on the control environment. | | |
| 2. If an examination of the control environment has not been recently performed, evaluate all documented prior audit experience with the contractor, including permanent files, relevant audit reports and working papers, suspected irregular conduct (SIC) referrals, and discussions with prior auditors. Obtain an understanding of the following factors: | | |
| a. Integrity and ethical values. | | |
| b. Commitment to competence. | | |
| c. Board of directors and/or audit committee participation. | | |
| d. Management's philosophy and operating style. | | |
| e. Organizational structure. | | |
| f. Assignment of authority and responsibility. | | |
| g. Human resource policies and procedures. | | |
| 3. Document your overall understanding of the control environment and the impact that it has on the nature and extent of testing of each control objective (W/Ps G, H, I, J, and K). | | |

| **D-1** | **Contractor Risk Assessment** | **WP Reference** |
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| **Version 4.0, dated September 2004** | | |
| The auditor should develop a sufficient understanding of the risk assessment process currently employed by the contractor in terms of its identification, analysis, and management of risks relevant to the preparation of indirect/ODC contract cost data. | | |
| 1. Meet with responsible personnel to obtain an overview of the various risk factors considered by management. | | |
| 2. Once the various risk factors are identified, obtain an understanding of how management identifies the risks, estimates the significance of risks, assesses the likelihood of their occurrence, and relates them to contract reporting. | | |
| 3. If applicable, obtain an overview of any plans, programs, or actions management may initiate to address specific risks. Keep in mind that, depending on the nature of specific risks, management may elect to accept a given risk due to costs or other considerations. | | |
| 4. Document your overall understanding of the contractor's risk assessment practices and the impact that it has on the nature and extent of testing of each control objective (W/P G, H, I, J, and K). | | |

| **E-1** | **Information and Communications** | **WP Reference** |
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| **Version 4.0, dated September 2004** | | |
| Information and communication processes consist of the methods and records established to record, process, summarize, and report contract cost data. The auditor should develop a sufficient understanding of the contractor's information and communication processes (relevant to contract cost data) to identify significant classes of transactions and how they are initiated, processed, controlled, and reported. | | |
| 1. Since the accounting and information technology systems are integral components of information and communication processes, evaluate the most recently completed ICAPS for the Control Environment and Overall Accounting Controls and the IT Systems General Internal Controls for the rationale behind any moderate or high-risk assessment ratings and determine the potential impact, if any, on the effectiveness of the indirect/ODC system internal controls on information and communications. | | |
| 2. Evaluate relevant permanent files, prior audit working papers, and any prior contractor demonstrations of its indirect/ODC system information and communication processes. | | |

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| 3. Determine if the contractor has made changes to the information and communication processes in its indirect/ODC system since the last demonstration. Evaluate the changes. If no prior systems demonstration was performed, have the contractor provide one. Contractor representatives providing the demonstration should possess a detailed knowledge of the indirect/ODC system. The demonstration provides the auditor an opportunity to query contractor personnel regarding internal controls and how they are monitored. The auditor should ensure that the demonstration addresses the internal control activities outlined in CAM 5-1000. | |
| 4. The contractor should include appropriate manual and computerized controls in its information processing that check for accuracy, completeness, and proper authorization of indirect/ODC related transactions. Have the contractor identify and demonstrate controls related to each of the areas listed in a. through e. below. Compare the contractor disclosed controls with the generic access control listing contained in the referenced CAM section and identify any controls not incorporated in the application. Verify the existence and adequacy of the contractor disclosed controls. Discuss any apparent deficiencies with the contractor. | |
| a. Access Controls (CAM 5-1406.1) | |
| b. Data Input Controls (CAM 5-1406.2) | |
| c. Processing Controls (CAM 5-1406.3) | |
| d. Error Correction and Submission (CAM 5-1406.4) | |
| e. Output Controls (CAM 5-1406.5) | |
| 5. Selectively trace recorded amounts through the indirect/ODC system to validate your understanding of the information and communication processes in the indirect/ODC system. Discrepancies between your understanding and the contractor's demonstration should be resolved prior to completing the remainder of this examination. | |
| 6. Document your confirmed understanding of the contractor's indirect/ODC system information and communication processes and obtain a written confirmation from the contractor indicating that they agree with this understanding. This documentation will typically take the form of system flowcharts or narrative descriptions and can be prepared by the auditor or consist of documentation prepared by the contractor (see CAM 5-106). Based on your understanding of the contractor's indirect/ODC system information and communication processes, document the impact that it will have on the nature and extent of testing of each control objective (W/Ps G, H, I, J, and K). | |

| **F-1** | **Monitoring** | **WP Reference** |
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| **Version 4.0, dated September 2004** | | |
| Monitoring is a process that assesses the quality of internal control performance over time. It involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. The auditor should develop a sufficient understanding of the contractor's ongoing monitoring activities and/or separate evaluations related to the indirect/ODC system internal controls. | | |
| 1. Determine if ongoing monitoring procedures are incorporated into the normal recurring activities of the contractor's organization. These procedures should include regular management and supervisory activities. | | |
| 2. Where applicable, determine the extent of internal audit involvement in performing monitoring functions through separate evaluations. | | |
| 3. Determine and document the extent of monitoring activities being performed by external parties. | | |
| 4. Document your overall understanding of the monitoring activity being performed at the contractor's location and the impact it will have on the nature and extent of testing of each control objective (W/Ps G, H, I, J, and K). | | |

| **G-1** | **Contractor Compliance Reviews** | **WP Reference** |
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| **Version 4.0, dated September 2004** | | |
| The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Indirect/ODC system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Other Internal Control Audit, Indirect and ODC). The audit procedures for this control objective are also included in the internal control matrix. If the auditor determines that relevant internal control activities do not exist, or that the effort to perform tests is not justified, no control testing need be performed, and control risk will be assessed as high. | | |
| 1. In planning the following audit procedures to understand the contractor's control activities, the auditor should recognize the other components of internal control and their impact on the nature and extent of testing to be performed. Document the impact of the internal | | |

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| control components on the nature and extent of testing on this control objective. Internal control components are as follows: | |
| • Control environment | |
| • Contractor risk assessment | |
| • Information and communications | |
| • Monitoring | |
| 2. Evaluate the contractor's policies and procedures to determine if periodic management reviews of compliance with Federal laws and regulations occur... | |
| 3. Evaluate the nature and extent of management's most recent review of established policies and procedures to determine if it complies with established review policies and procedures. | |
| 4. Evaluate the contractor's policies and procedures to determine if they require periodic management review of actual indirect/ODC system practices. | |
| 5. Evaluate recent management review activity to determine if the contractor is performing reviews in accordance with time frames and guidelines established in the policies and procedures. | |
| 6. Identify any reviews which may have an impact on this examination and evaluate the reports and supporting working papers to determine if any system deficiencies were noted, and the extent to which we can rely on the work performed (See CAM 4-1000). | |
| a. Determine if reported findings and recommendations were resolved in accordance with established policies and procedures. | |
| b. If deficiencies have been identified and not resolved, evaluate the contractor's calculation of the cost impact and actions taken to ensure that appropriate adjustments were made to Government contract billings, and proposed or claimed costs. | |
| 7. Evaluate the contractor's policies and procedures to determine if they provide for adequate follow-up on management review findings and recommendations. | |

| **H-1** | **Training** | **WP Reference** |
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| **Version 4.0, dated September 2004** | | |
| The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Indirect/ODC | | |

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| system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Other Internal Control Audit, Indirect and ODC). The audit procedures for this control objective are also included in the internal control matrix. If the auditor determines that relevant internal control activities do not exist, or that the effort to perform tests is not justified, no control testing need be performed, and control risk will be assessed as high. | |
| 1. In planning the following audit procedures to understand the contractor's control activities, the auditor should recognize the other components of internal control and their impact on the nature and extent of testing to be performed. Document the impact of the internal control components on the nature and extent of testing on this control objective. Internal control components are as follows: | |
| • Control environment | |
| • Contractor Risk Assessment | |
| • Information and communications | |
| • Monitoring | |
| 2. Evaluate the contractor's policies and procedures to determine if they require periodic training of all employees involved in the indirect/ODC system. | |
| 3. Evaluate records of completed training, or other evidence, indicating that appropriate employees have been trained in accordance with established policies and procedures. | |

| **I-1** | **Preparation of Indirect-ODC Submissions** | **WP Reference** |
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| **Version 4.0, dated September 2004** | | |
| The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Indirect/ODC system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Other Internal Control Audit, Indirect and ODC). The audit procedures for this control objective are also included in the internal control matrix. If the auditor determines that relevant internal control activities do not exist, or that the effort to perform tests is not justified, no control testing need be performed, and control risk will be assessed as | | |

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| high. | |
| 1. In planning the following audit procedures to understand the contractor's control activities, the auditor should recognize the other components of internal control and their impact on the nature and extent of testing to be performed. Document the impact of the internal control components on the nature and extent of testing on this control objective. Internal control components are as follows: | |
| • Control environment | |
| • Contractor risk assessment | |
| • Information and communications | |
| • Monitoring | |
| 2. Evaluate the contractor's policies and procedures to determine if they adequately cover the preparation of indirect/ODC proposals, billings, and claims on U.S. Government contracts. | |
| 3. Selectively test recent indirect/ODC proposals, billings, and claims to determine if they were prepared in accordance with established policies and procedures. | |

| **J-1** | **Allowability of Selected Indirect - ODC** | **WP Reference** |
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| **Version 4.0, dated September 2004** | | |
| The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Indirect/ODC system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Other Internal Control Audit, Indirect and ODC). The audit procedures for this control objective are also included in the internal control matrix. If the auditor determines that relevant internal control activities do not exist, or that the effort to perform tests is not justified, no control testing need be performed, and control risk will be assessed as high. | | |
| 1. In planning the following audit procedures to understand the contractor's control activities, the auditor should recognize the other components of internal control and their impact on the nature and extent of testing to be performed. Document the impact of the internal control components on the nature and extent of testing on this control objective. Internal control components are as follows: | | |

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| • Control environment | |
| • Contractor risk assessment | |
| • Information and communications | |
| • Monitoring | |
| 2. Check the most recently completed audit (e.g., price proposal or incurred costs) which tested for CAS compliance (see CAM 8-305.2) to determine if the contractor's policies and procedures for segregating unallowable costs are in compliance with applicable CAS 405 requirements and are working effectively. Follow-up on previously reported instances of noncompliance. | |
| 3. At least every third year, test selected transactions during incurred cost/ODC audits to determine that the internal controls are functioning as prescribed (see CAM 5-108). The transaction testing should include both indirect and ODCs, unless the ODCs were considered immaterial and excluded from the internal control audit. Simultaneously with transaction tests, the auditor should trace transactions through the system to obtain reasonable assurance that there are no significant internal control weaknesses. | |

| **K-1** | **Allocability of Indirect - ODCs** | **WP Reference** |
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| **Version 4.0, dated September 2004** | | |
| The auditor should obtain an understanding of the contractor's control activities for this control objective. A detailed understanding of control activities is essential to the assessment of control risk. Indirect/ODC system primary control objectives and examples of control activities, as they relate to U.S. Government contracts, are provided in the internal control matrix on the DCAA intranet under audit programs (Internal Control Matrix – Other Internal Control Audit, Indirect and ODC). The audit procedures for this control objective are also included in the internal control matrix. If the auditor determines that relevant internal control activities do not exist, or that the effort to perform tests is not justified, no control testing need be performed, and control risk will be assessed as high. | | |
| 1. In planning the following audit procedures to understand the contractor's control activities, the auditor should recognize the other components of internal control and their impact on the nature and extent of testing to be performed. Document the impact of the internal control components on the nature and extent of testing on this control objective. Internal control components are as follows: | | |

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| • Control environment | |
| • Contractor risk assessment | |
| • Information and communications | |
| • Monitoring | |
| 2. Check the most recently completed CAS 403, 410, and 418 compliance audits which tested for CAS compliance (see CAM 8-305.2) to determine if the contractor's policies and procedures for allocating indirect/ODCs are in compliance with applicable FAR and CAS requirements, have been implemented, and are working effectively. Follow-up on any reported instances of noncompliance. | |
| 3. Check the most recently completed audit (e.g., price proposal or incurred cost) which tested for CAS compliance (see CAM 8-305.2) to determine if the indirect rate structure to accumulate actual costs is consistent with the indirect rate structure used to prepare forward pricing indirect rates for the same year (CAS 401/FAR31.201-1 and 31.203(d)). Follow-up on any reported instances of noncompliance. | |
| 4. Check the most recently completed audit (e.g., price proposal or incurred cost) which tested for CAS compliance (see CAM 8-305.2) to determine if the contractor has accounting policies and procedures which provide that all items of ODCs are readily identifiable with the contract to which they have been charged (CAS 402/FAR 31.202 and 31.203(a)). Follow-up on any reported instances of noncompliance. | |
| 5. Check the most recently completed audit (e.g., price proposal or incurred cost) which tested for CAS compliance (see CAM 8-305.2) to determine that the contractor followed consistent practices in selecting the cost accounting period(s) in which any type of expense and any type of adjustment to expense are accumulated and allocated, and that the same cost accounting period is used for indirect cost pools and allocation bases (CAS 406/FAR 31.203(e)). Follow-up on any reported instances of noncompliance. | |

| **A-1** | **Concluding Steps** | WP Reference |
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| **Version 4.0, dated September 2004** | | |
| 1. **Assessment Of Control Risk** | | |
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| a. Considering all five components of internal control (control environment, contractor risk assessment, information and communications, monitoring, and control activities) that relate to | | |

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| control objectives, assess control risk for each of the relevant control objectives (contractor compliance reviews; training; preparation of indirect/OCC submissions; allowability of selected indirect/ODCs and allocability of indirect/ODCs). For each of the objectives, summarize the characteristics, which support the assessed level of control risk and specifically identify any internal control weaknesses or system deficiencies. | |
| b. Determine if the indirect/ODC system is adequate to reasonably assure proper pricing, administration, and settlement of Government contracts in accordance with applicable laws and regulations. | |
| c. Based on the assessments above, determine the impact on the scope of other audits. | |
| d. Update the ICAPS (see CAM 3-305). | |
| e. Coordinate the results of audit with the supervisor. The supervisor and the FAO manager should review and initial the ICAPS before the exit conference is performed. If it is determined that additional audit steps are needed, any additional planned audit effort should be accomplished as part of this examination or immediately thereafter. Any delays in completion of this audit effort should be documented and approved by management. | |
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| 2. **Summary Steps** | |
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| a. Prepare a draft audit report in accordance with CAM 10-400. If applicable, prepare a separate noncompliance report. | |
| b. Conduct an exit conference with the contractor in accordance with CAM 4-304. | |
| c. Finalize the audit report incorporating the contractor's response and audit rejoinder. | |
| d. If the contractor has EVMS covered contracts, provide comments in the audit report on whether any findings are likely to impact the contractor's EVMS (10-1204.5b). Discuss findings and recommendations relating to the EVMS with the Contract Administration Office EVMS Monitor prior to issuance of the report. Immediately evaluate the impact of these findings on specific EVMS covered contracts and provide the details in flash EVMS surveillance reports (11-209.2.e). | |
| e. Update the permanent file in accordance with CAM 4-405.1.b (MAAR #3). | |

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| 3. **Closing Actions** | |
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| Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include: | |
| a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing. | |
| b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format. | |
| c. Review the APPS exe file for temporary files. These files can be recognized by the "~$" or "~WRL" at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS. | |
| d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention "01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc" and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word "Report" would be replaced by "MFF" or "MFR" in the naming convention as appropriate. | |
| e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails. | |
| f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with | |

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| "-sig" added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA. | |
| g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor's initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing. | |
| h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage. | |
| i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed. | |
| j. Verify using a separate machine that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label. | |
| k. Securely enclose the "backup" set of electronic files (CD) and any "official" set of hard copy in the hard copy folder. | |
| l. File the "official" set of electronic files in iRIMS (see iRIMS User Guide). | |
| m. **Do Not File Sensitive Audits in iRIMS**: Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions. | |